Chapter 1
CHAPTER - I

INDIA’S FOREIGN TRADE POLICY

Introduction:

Before 1947 when India was a colony of the British, the pattern of her foreign trade was typically colonial. India was a supplier of foodstuffs and raw materials to the industrialized nations particularly England and an importer of manufactured goods. This dependence on foreign countries for manufactures did not permit industrialization at home, rather as a result of the competition from British manufactures, the indigenous handicrafts suffered a severe blow:

With the dawn of independence, the colonial pattern of trade had to be changed to suit the needs of a developing economy. An economy, which decides to embark on a programme of development, is required to extend its productive capacity at a fast rate. For this, imports of machinery and equipment, which cannot be produced in the initial stages at home, are essential. Such imports, which either help to create new capacity in some lines of production or enlarge capacity in the other lines of production, are called developmental imports.
For instance, imports required for the setting up of the steel plants, the locomotives factory and the hydro-electric projects are of a developmental nature. Secondly, a developing country which sets in motion the process of industrialisation at home requires the imports of raw materials and intermediate goods so as to properly utilise the capacity created in the country. Imports which are made in order to make a full use of the productive capacity are called *maintenance imports*. These imports are vital for a developing economy, as many of the industrial projects are also held up for lack of maintenance imports. For a developing economy, the developmental and maintenance imports set limits to the extent of industrialisation which can be carried out in a given period. Besides these imports, a developing economy is also required to import consumer goods which are in short supply at home during the period of industrialization. Such imports are anti-inflationary because they reduce the scarcity of consumer goods. One example of such imports is the foodgrains imports in India in the post-independence period which helped to arrest the rise of prices at home.
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It is, therefore, inevitable that during the early years of development, imports have to be increased at a very fast rate. It is natural that the balance of trade in such a situation will turn heavily against the developing country. This necessitates the enlargement of exports. External assistance can help to share the burden of growth in the short run, but in the long period the developing country has to bear the burden of development itself. To meet the growing foreign debt in view of inelastic imports, a developing country must increase its exports. Traditionally, underdeveloped countries like India have been the exporters of foodstuffs and raw materials. As economic development proceeds, the raw material exports generally decline because their demand increases at home to meet the requirements of growing domestic industries. With fast growing population, the surplus of foodgrains available for exports either dwindles or is turned into a deficit. Consequently, a developing economy is required to find new commodities and new markets in which it can sell its manufactures. The developed nations can help the process of industrialisation in an under developed country by reducing trade barriers, and accepting its consumer goods and semi-
manufactured goods. Foreign aid is important for an under developed country, but trade is more significant. Thus, the new slogan which has been raised by the under-developed nations is ‘Trade and Aid’.

After independence, India embarked upon planned development and formulated 5-years plans. The foreign trade policy was reflected in these plans and a review of it is made in the following discussion.

**Pattern of Foreign Trade during Plan Period**

**The First Plan Period: (1951–52 to 1955–56)**

The foreign trade policy in the first 5-year plan contained a preponderance of imports as would appear from the following table.

<table>
<thead>
<tr>
<th>Year (April-March)</th>
<th>Imports c.i.f.</th>
<th>Exports f.o.b.</th>
<th>Balance of Trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950-51</td>
<td>650</td>
<td>647</td>
<td>-3</td>
</tr>
<tr>
<td>1951-52</td>
<td>963</td>
<td>730</td>
<td>-233</td>
</tr>
<tr>
<td>1952-53</td>
<td>633</td>
<td>602</td>
<td>-31</td>
</tr>
<tr>
<td>1953-54</td>
<td>592</td>
<td>540</td>
<td>-52</td>
</tr>
</tbody>
</table>

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*TABLE-1.1*

*Trade Balance during First Plan: (Rs. Crore)*
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<table>
<thead>
<tr>
<th></th>
<th>1954-55</th>
<th>1955-56</th>
<th>Total 1951-52 to 1955-56</th>
<th>Annual average</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>690</td>
<td>597</td>
<td>-93</td>
<td>-108</td>
</tr>
<tr>
<td></td>
<td>773</td>
<td>641</td>
<td>-133</td>
<td>-542</td>
</tr>
<tr>
<td></td>
<td>3651</td>
<td>3109</td>
<td>-542</td>
<td></td>
</tr>
<tr>
<td></td>
<td>730</td>
<td>622</td>
<td>-108</td>
<td></td>
</tr>
</tbody>
</table>

Source: Reserve Bank of India Bulletins.

The annual average value of imports during the First Plan period was Rs. 730 crores and that of exports Rs. 622 crores. In this way, the average annual trade deficit worked out to be Rs. 108 crores. Trade deficit was largely due to programmes of industrialization, which gathered momentum and pushed up the imports of capital goods. There was no improvement in exports.

Second Plan Period: (1956-57 to 1960-61)

During the Second Plan, a massive programme of industrialisation was initiated. This included the setting up of the steel plants, heavy expansion and renovation of railways and modernisation of many industries, and as a result, the quantum of imports reached a very high level. Besides this, the maintenance imports required for a developing economy further increased our imports. Foodgrains imports had to be resorted to overcome internal shortages and rising prices.
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TABLE-1.2
Trade Balance during Second Plan: (Rs. Crores)

<table>
<thead>
<tr>
<th>Year (April-March)</th>
<th>Imports c.i.f.</th>
<th>Exports f.a.b.</th>
<th>Balance of Trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>1956-57</td>
<td>1102</td>
<td>635</td>
<td>-467</td>
</tr>
<tr>
<td>1957-58</td>
<td>1233</td>
<td>594</td>
<td>-639</td>
</tr>
<tr>
<td>1958-59</td>
<td>1029</td>
<td>576</td>
<td>-453</td>
</tr>
<tr>
<td>1959-60</td>
<td>932</td>
<td>627</td>
<td>305</td>
</tr>
<tr>
<td>1960-61</td>
<td>1106</td>
<td>631</td>
<td>-475</td>
</tr>
<tr>
<td>Total 1956-57 to 1960-61</td>
<td>5402</td>
<td>3063</td>
<td>-2339</td>
</tr>
<tr>
<td>Annual average</td>
<td>1080</td>
<td>613</td>
<td>-467</td>
</tr>
</tbody>
</table>

Source: Reserve Bank of India Bulletin.

Export earnings averaged Rs. 613 crores per annum. The figure of average exports earnings for the Second Plan was lower than that under the First Plan which shows that the much needed diversification of exports and export promotion drive did not materialize. Consequently, the trade balance became heavily adverse to the tune of Rs. 467 crores which was in sharp contrast to the moderate trade deficit of the order of Rs. 108 crores per year during the First Plan. Foreign exchange crisis became acute during the Second Plan period.

Third Plan Period: (1961-62 to 1965-66)
TABLE-1.3
Trade Balance during 1961-62 to 1965-66:
(Rs. Crores)

<table>
<thead>
<tr>
<th>Year (April-March)</th>
<th>Imports c.i.f.</th>
<th>Exports f.o.b.</th>
<th>Balance of Trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>1961-62</td>
<td>1006</td>
<td>668</td>
<td>-338</td>
</tr>
<tr>
<td>1962-63</td>
<td>1097</td>
<td>681</td>
<td>-416</td>
</tr>
<tr>
<td>1963-64</td>
<td>1245</td>
<td>802</td>
<td>-443</td>
</tr>
<tr>
<td>1964-65</td>
<td>1421</td>
<td>801</td>
<td>-620</td>
</tr>
<tr>
<td>1965-66</td>
<td>1350</td>
<td>783</td>
<td>-567</td>
</tr>
<tr>
<td>Total 1961-62 to 1965-66</td>
<td>6119</td>
<td>3735</td>
<td>-2384</td>
</tr>
<tr>
<td>Annual average</td>
<td>1224</td>
<td>747</td>
<td>-477</td>
</tr>
</tbody>
</table>

Source: Reserve Bank of India Bulletin. March 1974

The record of exports during the Third Plan shows that average export earnings worked out to be Rs. 747 crores. (Refer Table-1.3). As against it, actual annual average imports worked out to be Rs. 1,224 crores. The increase in the volume of imports during the Third Plan was due to three factors. Firstly, rapid industrialisation necessitated larger imports of machinery, equipment, industrial raw material and technical know-how. Secondly, the defence needs had increased following
aggression by China and Pakistan. Finally, large quantity of foodgrains was imported, partly because it was easily available and partly because of the extensive failure of crops in 1965-66.

**Impact of Currency Devaluation:**

Persistent adverse balance of trade since 1951 and consequent adverse balance of payments, acute shortage of foreign exchange, extensive borrowing by India from foreign countries and international institutions like IMF to overcome balance of payments problems—all these factors induced India to devalue the rupee by 36.5 per cent in June, 1966.
<table>
<thead>
<tr>
<th>Year (April-March)</th>
<th>Imports c.i.f.</th>
<th>Exports f.o.b.</th>
<th>Balance of Trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual plans</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1966-67</td>
<td>1992</td>
<td>1086</td>
<td>-906</td>
</tr>
<tr>
<td>1967-68</td>
<td>2043</td>
<td>1255</td>
<td>-788</td>
</tr>
<tr>
<td>1968-69</td>
<td>1740</td>
<td>1367</td>
<td>-373</td>
</tr>
<tr>
<td>Total 1966-67 to 1968-69</td>
<td>5775</td>
<td>3708</td>
<td>-2067</td>
</tr>
<tr>
<td>Annual average</td>
<td>1925</td>
<td>1236</td>
<td>-689</td>
</tr>
<tr>
<td>Fourth Plan</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1969-70</td>
<td>1582</td>
<td>1413</td>
<td>-169</td>
</tr>
<tr>
<td>1970-71</td>
<td>1634</td>
<td>1535</td>
<td>-99</td>
</tr>
<tr>
<td>1971-72</td>
<td>1824</td>
<td>1607</td>
<td>-217</td>
</tr>
<tr>
<td>1972-73</td>
<td>1867</td>
<td>1971</td>
<td>+104</td>
</tr>
<tr>
<td>1973-74</td>
<td>2955</td>
<td>2523</td>
<td>-432</td>
</tr>
<tr>
<td>Total 1969-70 to 1973-74</td>
<td>9862</td>
<td>9049</td>
<td>-813</td>
</tr>
<tr>
<td>Annual average</td>
<td>1972</td>
<td>1810</td>
<td>-162</td>
</tr>
</tbody>
</table>

*Note:* Figures are based on Director General of Commercial Intelligence and Statistics.

Devaluation was resorted to essentially (a) to reduce the volume of imports, (b) to boost exports, and (c) create a favourable balance of trade and balance of payments. Since devaluation was announced during a year of drought and the following year again happened to be a bad weather year as was also the year when the government announced its policy of liberalising imports in case of 59 industries, the immediate effect of devaluation was the further aggravation of the trade deficit. Although after devaluation of the rupee, exports increased during 1966-67 and 1967-68, but on account of relative inelasticity of imports, the import bill literally soared—Rs. 1,992 crores in 1966-67 and Rs. 2,043 crores in 1967-68. As a consequence, the balance of trade situation worsened during 1966-67 and 1967-68. However, with a better crop during 1968-69, foodgrain imports declined. Moreover, devaluation also produced its healthy effect in stimulating exports. Consequently, balance of trade which was unfavourable to the tune of Rs. 788 crores during 1967-68 declined significantly during the next three years. As a consequence of the policies of import restriction and reduction in foodgrain imports coupled with vigorous measures of export
promotion, during 1972-73, the country was able to have a favourable balance of trade for the first time since Independence. This was a healthy development but its impact was soon lost in 1973-74 because of several international factors which pushed up the prices of petroleum products, steel and non-ferrous metals, fertilizers and newsprint. Although the spurt in the prices of exports helped to boost them up to level of Rs. 2,523 crores, the kick given to imports was much stronger and they reached a high level of Rs. 2,955 crores. Consequently, deficit in the trade balance of the order of Rs. 432 crores appeared again in 1973-74. In an overall sense, trade deficit during the Fourth Plant was of much lower magnitude as compared with the period of the Second Plan, Third Plant and the Annual Plans.

Fifth Plan Period: (1974-1979):

The hike in oil prices which started in October 1973 seriously affected the pattern of trade throughout the world and India was no exception.
TABLE-1.5

Trade Balance during the Fifth Plan

(Rs. crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>Imports c.i.f.</th>
<th>Exports f.o.b.</th>
<th>Balance of Trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>1974-75</td>
<td>4,519</td>
<td>3,329</td>
<td>-1,190</td>
</tr>
<tr>
<td>1975-76</td>
<td>5,265</td>
<td>4,043</td>
<td>-1,222</td>
</tr>
<tr>
<td>1976-77</td>
<td>5,074</td>
<td>5,146</td>
<td>+72</td>
</tr>
<tr>
<td>1977-78</td>
<td>6,025</td>
<td>5,404</td>
<td>-621</td>
</tr>
<tr>
<td>1978-79</td>
<td>6,814</td>
<td>5,726</td>
<td>1,088</td>
</tr>
<tr>
<td>Total 1974-75 to 1978-79</td>
<td>27,697</td>
<td>23,648</td>
<td>-4,049</td>
</tr>
<tr>
<td>Annual average</td>
<td>5,540</td>
<td>4,730</td>
<td>-810</td>
</tr>
</tbody>
</table>


Table-1.5 shows how the value of imports during the Fifth Plan period reached very high levels—largely the result of a sharp increase in the cost of India’s major imports viz. Petroleum, fertilisers and foodgrains. Simultaneously, there was a significant improvement in India’s exports as they successively rose every year during the Fifth Plan period. The rise was so fast that by 1976-77, exports at Rs. 5.146 crores exceeded imports by Rs. 72 crores—balance of trade surplus
emerged for the second time since 1951. Exports of fish and fish preparations, coffee, tea, groundnuts, cotton fabrics and readymade garments and handicrafts recorded substantial increase in this period.

Another interesting point of this period was that during 1977-78 and in the next two years, the Janata Government followed a policy of haphazard import liberalisation at a time when export boom had almost petered out—the result was the re-emergence of the trade deficit from 1977-78 onwards.

**Sixth and Seventh Plan Period: (1980 onwards)**

With the last year of the Fifth Plan (1978-79), trade deficit started widening. On account of a further increase in the prices of petroleum products by OPEC the import bill shot up from Rs. 6,814 crores to Rs. 8,908 crores in 1979-80 and further to Rs. 12,524 crores in 1980-81 and to Rs. 13,608 crores in 1981-82. Though exports too continued to rise, the value of exports fell much short of imports. The result was unprecedented trade deficits—from nearly Rs. 2,450 crores in 1979-80 to Rs. 5,813 crores in 1980-81. It was this yawning deficit which forced the Government to approach the IMF in November, 1981 for a huge loan.
### TABLE-1.6
Trade balance during Sixth and Seventh Plans

<table>
<thead>
<tr>
<th>Year</th>
<th>Imports c.i.f.</th>
<th>Exports f.o.b.</th>
<th>Trade Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1979-80</td>
<td>8,908</td>
<td>6,459</td>
<td>-2,449</td>
</tr>
<tr>
<td>Sixth Plan</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1980-81</td>
<td>12,524</td>
<td>6,711</td>
<td>-5,813</td>
</tr>
<tr>
<td>1981-82</td>
<td>13,608</td>
<td>7,806</td>
<td>-5,802</td>
</tr>
<tr>
<td>1982-83</td>
<td>14,356</td>
<td>8,908</td>
<td>-5,448</td>
</tr>
<tr>
<td>1983-84</td>
<td>15,763</td>
<td>9,872</td>
<td>-5,891</td>
</tr>
<tr>
<td>1984-85</td>
<td>18,680</td>
<td>11,959</td>
<td>-6,721</td>
</tr>
<tr>
<td>Total 1980-81 to 1984-85</td>
<td>74,931</td>
<td>45,256</td>
<td>-29,675</td>
</tr>
<tr>
<td><strong>Annual average</strong></td>
<td>14,986</td>
<td>9051</td>
<td>-5,935</td>
</tr>
<tr>
<td>Seventh plan</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1985-86</td>
<td>21,164</td>
<td>11,578</td>
<td>-9,586</td>
</tr>
<tr>
<td>1986-87</td>
<td>22,669</td>
<td>13,315</td>
<td>-9,354</td>
</tr>
<tr>
<td>1987-88</td>
<td>25,692</td>
<td>16,396</td>
<td>-9,296</td>
</tr>
<tr>
<td>1988-89</td>
<td>34,202</td>
<td>20,647</td>
<td>-13,555</td>
</tr>
<tr>
<td>1989-90</td>
<td>40,642</td>
<td>28,229</td>
<td>-12,413</td>
</tr>
<tr>
<td>Total 1985-86 to 1984-85</td>
<td>1,44,369</td>
<td>90,165</td>
<td>-54,204</td>
</tr>
<tr>
<td><strong>Annual average</strong></td>
<td>28,874</td>
<td>18,033</td>
<td>-10,841</td>
</tr>
</tbody>
</table>

The same situation continued in 1983-84 and the trade deficit further rose to about Rs. 5,891 crores. A review of the data of imports and exports reveals that despite the fact imports of POL declined from Rs. 5,267 crores in 1980-81 to Rs. 4,830 crores in 1983-84, partly because international prices of oil showed a downward trend and partly because domestic production of crude was jacked up by ONGC, the trade deficit was of the order of Rs. 5,891 crores in 1983-84. This is explained by the fact that decline in POL imports was more than counterbalanced by a big hike in non-PL imports as a consequence of the policy of import liberalisation. The figures of 1984-85 indicate a further deterioration in the balance of trade and the trade deficit was of the order of Rs. 6,721 crores. The annual average imports during the Sixth Plan (1980-81 to 1984-85) were of the order of Rs. 14,986 crores as against annual exports of the order of Rs. 9,051 crores. Consequently, a huge annual average trade deficit of the order of about Rs. 5,935 crores was witnessed during the sixth plan.

Data about the Seventh Plan period (1985-86 to 1989-90) reveal that on account of the policies of indiscriminate liberalisation being followed by the congress (I) government
and later endorsed by the Janata Dal Government, the average annual imports shot up to Rs. 28,874 crores, but exports averaged Rs. 18,033 crores. Thus an unprecedented annual average trade deficit of the order of Rs. 10,841 crores emerged. The huge trade deficit compelled the Government to approach the World Bank/IMF for an unprecedented loan of over $6.7 billion. The Government was also forced to apply brakes on the licensing policy on import licenses.

Changing Pattern of India’s Foreign Trade (1989-90 and thereafter)

During 1990-91, according to DGCI & S figures, there is no doubt that a push was given to our export effort and exports shot up to Rs. 32,558 crores indicating an increase of 17.7%, but as a consequence of the Gulf War, the Government failed to curb imports and they reached a record level of Rs. 43,193 crores—an increased of 22.6 per cent. As a result of the sharp increase in imports, trade deficit shot upto a high figure of Rs. 10,635 crores.
TABLE 1.7

India’s Trade Balance during 1989-90 to 1993-94.

<table>
<thead>
<tr>
<th>In Rs. Crores</th>
<th>In US$ million</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Exports</td>
</tr>
<tr>
<td>1990-91</td>
<td>32,558</td>
</tr>
<tr>
<td>1991-92</td>
<td>47,851</td>
</tr>
<tr>
<td>1992-93</td>
<td>53,688</td>
</tr>
<tr>
<td>1993-94</td>
<td>69,751</td>
</tr>
<tr>
<td>1994-95</td>
<td>82,674</td>
</tr>
<tr>
<td>1995-96</td>
<td>1,06,35</td>
</tr>
<tr>
<td>1996-97</td>
<td>1,17,52</td>
</tr>
<tr>
<td>1997-98</td>
<td>26,286</td>
</tr>
<tr>
<td>1998-99 (April-June)</td>
<td></td>
</tr>
<tr>
<td>Total (1992-93 to 1997-98)</td>
<td>5,56,27</td>
</tr>
<tr>
<td>Annual average</td>
<td>92,713</td>
</tr>
<tr>
<td>Annual average growth Rate (1992-93 to 1997-98)</td>
<td>21.7</td>
</tr>
</tbody>
</table>

During 1991-92, exports in dollar terms showed a decline by 1.5% compared with 1990-91, from $18,145 million in 1990-91 to $17,866 million in 1991-92. But import compression was much sharper by 19.4 per cent—from $24,073 million in 1990-91 to $19,411 million in 1991-92. Despite the fact that the Government introduced a number of measures in the new trade policy allowing exim scrips, abolishing cash compensatory support (CCS) schemes as also a two-step devaluation of the rupee, but these measures failed to boost up exports. Even the growth in exports to the General Currency Area (GCA) rose by 6.34% during 1991-92. However, exports to Rupee Payment Area (RPA) during 1991-92 declined by 42.5% in dollar terms. This was largely due to the difficult political situation in the erstwhile Soviet Union leading to its disintegration. Consequently, exports did not pick up but resulted in a decline.

During 1992-93, exports rose by merely 3.7 per cent in dollar terms—from $17,866 million in 1991-92 to $18,537 million in 1992-93, but as against them, imports increased by a much larger margin of 12.7 per cent—from $19,411 million in 1991-92 to $21,882 million in 1992-93. Consequently, balance
of trade deficit which was of the order of $1,545 million in 1991-92 rose to a high figure of $3,345 million in 1992-93. Several factors were responsible for the worsening trade deficit. Firstly, the import of oil rose by 13.6 per cent and peaked to $5,624 million in 1992-93. Secondly, with the removal of import compression measures, imports recovered and this also added to the import bill. On the export front, the exports to the General Currency Area (GCA) rose by 10.4 per cent in 1992-93. This was largely due to a response to the liberalised trade and exchange rate regimes. But exports to the Rupee Payment Area (RPA) declined by 62.2 per cent in 1992-93 on top of a decline of 42.5 per cent in the previous year. This was due to the continuance of economic uncertainties in the former Soviet Union. This had an adverse effect on boosting exports.

During 1993-94, the export promotion measures did lead to a rise of exports by 19.6 per cent—from $18,537 million in 1992-93 to $22,238 million. This was welcome. On the import front, there has been an increase in imports by only 6.1 per cent—from $21,822 million in 1992-93 to $23,306 million in 1993-94. This has resulted in reducing the balance of trade
deficit to $1,068 million in 1993-94, as against $3,345 million in 1992-93.

It may, however, be noted that provisional estimates are based on DGCI & S data and do not take into account the defense imports. Consequently, when RBI figures based on actual shipment of bills would be available, the trade deficit would be still larger. To that extent, the trade deficit figures underestimate the trade gap.

During 1994-95, exports shot up to $26,331 million as against $22,238 million in 1993-94, indicating an increase of 18.4 per cent. On the other hand, imports increased at a much higher rate by 22.9 per cent. In absolute terms, imports during 1994-95 touched $28,654 million as against $23,306 million in 1993-94. This has resulted in an increase of balance of trade deficit from $1,086 million in 1993-94 to $2,323 million in 1994-95. Although during 1995-96, exports increased to $31,797 million as compared to $26,331 million in 1994-95—a sharp increase of 20.9% in dollar terms, but the benefit of high export promotion was more than neutralised by the unprecedented increase in imports by 26.9% during 1995-96—from $28,654 million in 1994-95 to $36,678 million in 1995-
96. But with a comfortable position of foreign exchange reserves, the country can afford this deficit in balance of trade.

During 1996-97, export grew merely by 4.1 per cent i.e. from US$31,797 million in 1995-96 to $33,166 million in 1996-97. There is no doubt that imports also slowed down and increased by just 5.1 per cent i.e. from $36,678 million to $38,548 million in 1996-97. Consequently, the trade deficit soared to a high figure of $5,442 billion in 1996-97, nearly equal to the level of $5.442 billion in 1996-97, nearly equal to the level of 1990-91 when a crisis in the balance of payments was precipitated.

Taking the 6-year period (1992-93 to 1997-98), it may be stated that exports in dollar terms grew on an average growth rate of 13.1 per cent per annum and imports grew by 14.1 per cent per annum.

Another point which deserves serious attention is that in rupee terms, exports rose by 21.7 per annum (compound) during the 5 year period (1992-93 to 1997-98) and imports rose by 23.4% per annum. (Refer Table-1.7) But much of the export effort was frittered away in neutralizing the effect of the two-step devaluation undertaken in 1991 and the rise of the value of
imports was also to a large extent the result of the devaluation of the Rupee. Obviously, devaluation is only a short-term measure—a palliative, it does not offer an enduring solution to our problem of continuing trade deficit. For this purpose, it would be more desirable to exercise a strong control on the rise of prices in India so that the Rupee in the international market does not become over valued again and thus necessitate another devaluation. The cure lies in making our economy grow at a faster rate so that inflation can be controlled effectively. This can help the export effort becoming really effective.

Foreign trade has played a crucial role in India's economic development. During 1998-99, exports covered over 9,300 commodities to about 220 countries while imports were from about 180 countries of over 8,250 commodities. Exports cover a wide range of items in the agricultural and industrial sectors as also handloom, cottage and handicraft articles. Project export which include consultancy, civil construction and turnkey contracts have also made a significant progress in the recent years. Computer software exports have also increased significantly. Imports have increased substantially, bulk of which comprise items like petroleum and petroleum
products, fertilizers, precious and semi-precious stones for export production and capital goods, raw materials, consumables and intermediates for industrial production and technological upgradation.

**Global Dimensions of Foreign Trade**

The total turnover of foreign trade (imports plus exports including re-exports) has been steadily rising since the beginning of the planning era in India. Value of trade increased from Rs. 1,214 crore in 1950-51 to Rs. 3,67,507.58 crore in 1999-2000.

**TABLE-1.8**

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports (Rs. Crore)</th>
<th>Imports (Rs. Crore)</th>
<th>Total Value of Export (Rs. Crore)</th>
<th>Balance of Trade (Rs. Crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-91</td>
<td>32,557.63</td>
<td>43,192.86</td>
<td>75,750.49</td>
<td>-10,635.23</td>
</tr>
<tr>
<td>1991-92</td>
<td>44,041.81</td>
<td>47,850.84</td>
<td>91,892.65</td>
<td>-3,809.03</td>
</tr>
<tr>
<td>1992-93</td>
<td>53,688.25</td>
<td>63,374.52</td>
<td>1,17,062.77</td>
<td>-9,686.27</td>
</tr>
<tr>
<td>1993-94</td>
<td>69,751.39</td>
<td>73,101.01</td>
<td>1,42,852.4</td>
<td>-3,349.62</td>
</tr>
<tr>
<td>1994-95</td>
<td>82,674.11</td>
<td>89,970.66</td>
<td>1,72,644.77</td>
<td>-7,296.55</td>
</tr>
<tr>
<td>1995-96</td>
<td>1,06,353.34</td>
<td>1,22,678.14</td>
<td>2,29,031.48</td>
<td>-16,324.80</td>
</tr>
<tr>
<td>1996-97</td>
<td>1,18,817.03</td>
<td>1,38,919.68</td>
<td>2,57,736.76</td>
<td>-20,102.60</td>
</tr>
<tr>
<td>1997-98</td>
<td>1,30,100.64</td>
<td>1,54,176.30</td>
<td>2,84,276.94</td>
<td>-24,075.66</td>
</tr>
<tr>
<td>1998-99</td>
<td>1,39,753.14</td>
<td>1,78,331.85</td>
<td>3,18,084.99</td>
<td>-38,578.71</td>
</tr>
<tr>
<td>1999-2000</td>
<td>1,62,924.92</td>
<td>2,04,582.66</td>
<td>3,67,507.58</td>
<td>-41,657.74</td>
</tr>
</tbody>
</table>

*Source: DGCI & S, Calcutta*

During 1999-2000 India’s total exports amounted to Rs. 1,62,924.92 crore as compared to Rs. 1,39,753.14 crore during 1998-99, registering a growth of 16.6 per cent. In dollar terms the growth
rate was 13.2 per cent. At the same time, imports increased from Rs. 1,78,331.85 crore in 1998-99 to Rs. 2,04,582.66 crore during 1999-2000 thereby registering a growth of 14.7 per cent. In dollar terms imports increased by 11.4 per cent. In rupee terms the trade deficit in 1999-2000 was Rs. 41,657.74 crore against Rs. 38,578.71 crore during 1998-99.

The commercial offices attached to India play a vital role in the promotion of India’s foreign trade and economic relations. The commercial representatives assist the Government in the formulation of its trade and economic policies through regular feed-back on market trends, trade promotion prospects and the general economic situation of the country to which they are accredited. To keep commercial representatives informed on the important economic policy developments, a “Newsletter” is brought out by the ministry.

SOUTH-EAST ASIA

During the year 1999-2000 India’s trade with countries in ASEAN and East Asia region at US $ 9,032 million has registered a growth of 14 per cent as compared to the corresponding figures of US $ 7,955 million last year. India’s exports during 1999-2000 which stand at US $ 2,732 million has registered a growth of 31 percent as against US $ 2,090 million during the corresponding period last year.
Similarly, India's imports at US$ 6,300 million in 1999-2000 has increased by 7% over the figures of US $ 5,865 million in 1998-99. The principal commodities for export to Australia, New Zealand, Myanmar, Thailand and Philippines include oil meals, gem and jewellery, electronic goods, cotton/fabrics, made-ups, machinery and instruments, primary and semi-finished iron and steel, drugs and pharmaceuticals, meat, etc. The major commodities imported from this region are coal/coke, briquettes, vegetable oils, electronic goods, organic chemicals, machinery except electrical machinery, wood and wood products, non-ferrous metals, raw wool, pulses, wheat, electrical machinery, etc.

In consonance with India's 'Look East Policy' and her having become a full Dialogue Partner with ASEAN, ASEAN-India working Group on Trade and Investment (ASEAN-India WGTI) was established under the aegis of the ASEAN-India Joint Cooperation Committee to give a major fillip to India's relationship with ASEAN in trade and investment which are major areas of focused cooperation with ASEAN. Its 3rd meeting was held on 21-22 March 2000 in New Delhi.
West Asia And North Africa

During 1998-99, exports to West Asian and North African (WANA) countries were US $ 4.19 billion and imports were US $ 7.74 billion. During the first ten months of 1999-2000, exports to this region amounted to US $ 3.69 billion and imports to this region amounted to US$ 7.71 billion. The balance of trade is not in favour of India because of import of large quantities of crude oil from this region. This region is also an important source of supply of some important agricultural and industrial inputs required in India, viz., fertilizers, rock phosphate, etc. It holds considerable promise for the growth of India’s exports, particularly in processed foods, drugs and pharmaceuticals and gems and jewellery sectors. India has trade agreements with Egypt, Iraq, Iran, Afghanistan, Jordan, Kuwait, Libya, Algeria, Yemen, Israel, Saudi Arabia, Bahrain, Sudan, Morocco, Syria and Tunisia. India is also having joint commissions with some of these countries for devising measures for improving and diversifying trade flows.

CIS Countries And Baltic States:

This region comprises of 15 countries namely Russia, Ukraine, Armenia, Azerbaijan, Georgia, Belarus, Moldova,
Kazakhstan, Kyrgyzstan, Uzbekistan, Tajikistan and Turkmenistan are known as Central Asian Republics and Latvia, Lithuania and Estonia are known as Baltic States.

India's trade with erstwhile Soviet Union in 1990-91 was Rs. 7,803 crore while in 1998-99 the total trade between India and the countries of this region was Rs. 6,403.26 crore. In the year 1999-2000 (April-December) the total trade stands Rs. 6,301.33 crore. Indo-Russian bilateral trade accounts for about 90 per cent of India's total trade with countries of this region.

Africa

India has taken several measures to increase bilateral cooperation and joint ventures with sub-Saharan African countries. Trade agreements have been signed with 21 countries, namely, Burkina Faso, Ethiopia, Ghana, Angola, Cameroon, Ivory Coast, Kenya, Liberia, Mozambique, Namibia, Nigeria, Rwanda, Senegal, South Africa, Uganda, Zambia, Zaire, Zimbabwe, Seychelles, Tanzania and Mauritius. Almost all these agreements provide for constitution of bilateral trade committee for periodical review of trade and co-operation. India has a total of 77 joint ventures in sub-Saharan Africa. Major items of exports from India are cotton yarn, fabrics,
drugs, pharmaceuticals and fine chemicals, machinery and instruments, readymade garments, transport equipments, rice, primary and semi-finished iron and steel, consultancy services, chemicals and allied products, etc.

North America:

The United States is India's largest single trading partner. In 1998-99, exports to the US were of the order of Rs. 30,841.56 crore and imports from the US were of the order of about Rs. 15,319.25 crore. During April-January 1999-2000, India's exports to USA at Rs. 29,619.41 crore have registered a growth of more than 19 per cent; whereas the imports from USA at Rs. 13,523.30 crore have registered a growth of more than 8 per cent, over the corresponding period of previous year. The dollar value of the two-way trade has been increasing since 1991-92. India's major exports to US include gems and jewellery, RMG cotton including accessories, cotton yarn, fabrics, handicrafts (excluding handmade carpets), manufactures of metals, cashew, carpet handmade, RMG man-made fibres, primary and semi-finished iron and steel, marine products, drugs-pharmaceuticals & fine chemicals machinery and instruments, etc. Major imports from US include fertilizers
manufactured, electronics goods, machinery except electric &
electronic, organic chemicals, pearls, precious and semi-
precious stones, project goods and professional instruments,

Indian trade with Canada is very modest. During 1998-99,
exports to Canada were of the order of around Rs. 2,005.70
crore and imports were of the order of Rs. 1,559.88 crore.
During April-January 1999-2000, India’s export to Canada at
Rs. 2044.17 crore have registered a growth of more than 28 per
cent while imports from Canada at Rs. 1,271.48 crore have
registered a decline of 6.76 per cent over the corresponding
period of the previous year. The major items of exports include
RMG cotton including accessories, cotton yarn, fabrics,
primary and semi-finished iron and steel, gem and jewellery,
drugs, pharmaceuticals and fine chemicals, spices, manufacture
of metals, etc., while imports include news print, pulp and
waste paper, vegetable oils fixed (edible), fertilizers
manufactured, other crude minerals, electronic goods and non-
ferrous metals, pulses, etc.
South America

India's exports to South America and Caribbean region were of the order of US $ 749.02 million and India's imports from this region were of the order of US $ 677.56 million during 1998-99. During April-December, 1999-2000, India's exports to this region at US $ 517.03 million have registered a growth of 10.53 per cent and the imports from the region at US $ 618.48 million have registered a growth of about 18.60 per cent, over the corresponding period of the previous year. Despite various constraints, India's exports to the region have shown a healthy rate of growth in the recent years. This is largely the result of trade and industry responding to the lowering of tariffs and non tariff barriers in many of the Latin American countries and special thrust of the Government through the FOCUS:LAC Programme to enhance trade with this region. Argentina, Brazil, Chile, Peru, Mexico, Panama, Colombia, Venezuela and Uruguay are India's major export markets in the region. Exports to the region include textiles and readymade garments, drugs and pharmaceuticals, engineering goods such as bicycles and components thereof, two-wheelers, automotive components, diesel engines, hand-tools, leather and
leather manufactures, dyes, intermediates, etc. Our imports from the region include crude minerals, iron and steel and their products, non-ferrous metals, metaliferrous ores, vegetables oils, pulp and paper waste, raw wool, etc.

West Europe

West Europe is the major trading partner accounting for about 28 per cent of India’s total exports and 29 per cent of imports in 1999-2000. It comprises countries in the European Union (Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxemburg, Netherlands, UK, Spain, Portugal, Austria, Finland and Sweden), European Free Trade Association (EFTA) countries (Norway, Switzerland, Iceland and Liechtenstein) in addition to Turkey, Malta and Cyprus. Turkey has since joined the customs union of the European Union (EU). A major part of India’s total exports to West European region is accounted for by just eight countries viz., Germany, UK, Belgium, Italy, France, Netherlands, Spain and Switzerland. Hence, most of the markets in this region are relatively unexplored. The main items of export to West Europe comprise textiles, yarn fabrics, engineering goods, software, besides agricultural and marine products. Imports from the region are generally manufactured
products, especially plant and machinery, chemicals, steel and transport equipment. During 1999-2000, EU countries accounted for nearly 25 per cent of exports and 22 per cent of imports of India’s global trade. While efforts are being made to expand India’s trade with EU member countries there are certain hurdles posed by EU in the shape of anti-dumping/anti-subsidy investigations leading to imposition of countervailing duties and other trade barriers put in place, obstructing market access.

Central And East European Countries

India has traditionally enjoyed close and multi-faceted relations with most of the countries of Central and Eastern Europe. However, the transition from centrally planned, socialist economies to market-oriented economies, collapse of old trading arrangements, severe liquidity constraints in these countries, fragmentation of retail markets, high interest rates which discourage long distance trading on L/c basis, an increase in demand for sophisticated packaging and quality goods, competition from other countries/regions like, China, Turkey and European Union and image problems of Indian goods, were responsible for decline in bilateral trade between
India and Eastern and Central European countries. The total trade which was around US $ 776.73 million during 1990-91 decreased to US $ 400.89 million in 1998-99. The exports from India to the Central and Eastern European countries has also declined from US $ 222.20 million in 1998-99 to US $ 152 million during 1999-2000.

Joint Ventures

Proposals from Indian companies for overseas direct investment in joint ventures and wholly owned subsidiaries are being considered in the Reserve Bank of India Central Office, Mumbai. The investment approved by the RBI are well diversified in terms of their destination countries. Approvals have been given to set up a large number of trading concerns meant for promoting India's exports in the field of textiles and garments, besides marine products, leather and electrical goods. In the manufacturing sector approvals have been given for different sectors such as iron and steel, drugs and pharmaceuticals, yarn and textiles, garments, cement and sugar. A number of approvals have been given for setting up units in the field of computer software.
Role of Public Sector Agencies in Promotion of Foreign Trade:

*The Minerals and Metals Trading Corporation of India Limited (MMTC)*, established in 1963, occupies a prominent position in India's foreign trade. Export of iron, manganese and chrome ores, and among finished fertilizers, only import of urea is canalised. It countries to be the largest non-oil importer of the country and has made considerable headway in increasing its imports. It has also emerged as the largest bullion trader in the sub-continent, importing and selling the largest quantity of gold and silver.

*The Mica Trading Corporation of India Limited (MITCO)* was incorporated in 1973 as a wholly owned subsidiary of MMTC to look after the business of mica exclusively. Due to the steady decline in turnover which had turned negative, BIFR ordered merger of MITCO with MMTC from 1 April 1995.

*State Trading Corporation of India Limited* is a premier international trading company owned by the Government of India. Set up in 1956, it undertakes export, import and domestic trade in a number of items in competition with the private trade and industry. It also imports many mass
consumption items entrusted to it by the Government of India in view of domestic shortages. Its turnover is estimated at Rs.
1,339 crore in 1999-2000 and net worth as on 31 March 2000 is
Rs. 467 crore.

Project and Equipment Corporation of India Limited (PEC) is a public sector enterprise under the Ministry of
Commerce. From being a canalising agency for the export of
Railway Rolling Stock, PEC has established itself as a leading
exporter of semi-turnkey projects and engineering equipment.
More recently, it has also diversified itself into other trading
activities such as third-country trade, commodity exports and
imports of raw material to support export activities of associate
manufacturers. PEP's turnover during 1999-2000 is Rs. 1,200
crore (provisionally).

Export Credit Guarantee Corporation Limited was
originally set up as Export Risk Insurance Corporation in July
1957. It was transformed into Export Credit and Guarantee
Limited in 1964. In December 1983, it was renamed as Export
Credit Guarantee Corporation of India Limited. The primary
objective of the Corporation is to promote exports from India
by providing export credit insurance and guarantee facilities to the Indian exporters and commercial banks.

*Spices Trading Corporation Limited, formerly known as Cardamom Trading Corporation Limited* was incorporated under the Companies Act, 1956 in October 1982, but the actual trading activities commenced from September 1983. The main objectives of the Corporation are: to carry on domestic and international trade in spices and its products; to process and cure spices and manufacture its products; to support, project, maintain, increase and promote the production of its products and to promote research and development of spices and its products.

**Autonomous Bodies**

There are a number of autonomous bodies under the Ministry of Commerce connected with the development of exports and export promotion activities.

There are five statutory Commodity Boards responsible for the production, development and export of tea, coffee, rubber, spices and tobacco. Export Inspection Council, Delhi a statutory body, is responsible for enforcement of quality
control and compulsory pre-shipment inspection of various exportable commodities.

*Indian Institute of Foreign Trade*, New Delhi, a registered body, is engaged in training of personnel in modern techniques of international trade; organisation of research in problems of foreign trade; organisation of marketing research, area surveys, commodity surveys, and dissemination of information arising from its activities relating to research and market studies.

*Indian Institute of Packaging, Mumbai*, a registered body set up on 14 May 1966, undertakes research on raw materials for packaging industries, organises training programmes on packaging industries, organises training programmes on packaging technologies and stimulates consciousness on the need for good packing, etc.

There are at present 20 export promotion councils, out of which 11 are under the Ministry of Commerce. They are non-profit organisations registered under the Companies Act/Society Registration Act. They promote and develop the exports of the country. Each council is responsible for the promotion of a particular group of products, projects and services.
Agricultural and Processed Food Products Export Development Authority (APEDA), which came into existence in 1986, acts as focal point for agricultural exports and concentrates on marketing of processed foods in value-added form. It also introduces effective quality-control measures.

Marine Product Export Development Authority, Cochin, a statutory body set up in August 1972, is responsible for the development of marine products industry with special reference to exports.

Federation of India Export Organisation, New Delhi is an apex body of primary servicing agency to provide integrated assistance to the Government recognised export houses and as a central coordinating agency in respect of export promotional efforts in the field of consultancy services in the country.

Indian Councils of Arbitration, New Delhi set up under the Societies Registration Act, promotes arbitration as a means of settling commercial disputes and popularising arbitration among traders, particularly those engaged in the international trade.

Trade Development Authority (TDA) has been merged with the Trade Fair Authority of India (TFAI) to form a new
organisation under the name of Indian Trade Promotion Organisation (ITPO) in January 1992. The main objectives of the Organisation are to develop and promote exports, imports and upgradation of technology through the medium of fairs to be held in India and abroad, to undertake publicity through the print and electronic media, to assist Indian companies in meets, contact promotion programmes and integrated marketing programmes for specific products in specific markets.

National Centre for Trade Information (NCTI), a specialised organisation utilizing modern methods of storage and collection of trade data was set up in March 1995. The objectives of this organisation are to establish linkages with export promotion bodies and collection, value-addition and dissemination of trade data among interested parties. It interacts with Indian missions abroad and overseas trade information bodies. It is the focal trade point of India and promotes international trade through E-Commerce.

**Export Promotion:**

India’s trade policy was primarily aimed at regulating imports having regard to the nascent stage of the country’s development and the need to encourage domestic production
through import-substitution measures. However, with the onset of liberalization, the importance of globalization through trade and making exports the engine of growth of the economy has been recognized.

Export-promotion is now a continuous and sustained effort. Specific steps in this direction have been taken resulting in significant achievements. Trade Policy reforms like specification and streamlining of procedures have created a fair environment of trade, strengthened export production base and removed procedural irritants; imports are being gradually liberalized to facilitate flow of raw materials and inputs of the exports sector and as a part of our commitment to World Trade Organization (WTO). India is a founder member of WTO. The regional bilateral initiatives include a comprehensive agreement with European Commission, Indo-US Commercial Alliance, and operationalization of SAARC Preferential Trading Arrangements (SAPTA), Bangkok Agreement and efforts to promote an Indian Ocean Rim Bloc.

Cooperation (BIMST-EC) is also gaining momentum. In its meeting held in April 2000 in New Delhi, it was decided to establish a clear work programme to implement the shared vision for a Free Trade Agreement in the BIMST-EC Region.

Import Policy

Capital goods, raw materials, intermediate components, consumables, spare parts, accessories, instruments and other goods which are importable without any restriction may be imported by any person. However, if such imports require licences, the actual user alone may import such goods unless to actual user condition is specifically dispensed with by the licensing authorities. Second-hand capital goods of less than 10 years old may be allowed to be imported without obtaining any licence on surrender of SIL.

Export Import Bank Of India (EXIM):

The Export-Import bank of India was set up by an Act of Parliament on January 1, 1982 and started functioning from March 1, 1982. The exim bank has been entangled to function as the principle financial institution for promoting exports and coordinating the networking of other institution engaged in financing foreign trade. The bank has authorised capital of Rs.
200 crore, which can be increased to Rs. 500 crore, which can be increased to Rs. 500 crore. It's initial paid up capital amounted to Rs. 50 crore which has been raised to Rs. 147.50 crore fully subscribed by the Government of India.

The main focuses of EXIM Bank's operations is on export credits for medium term and long term exports, when ever a buyer of exported goods, services from India is followed for deferred payment, an export credit arises.

It was classified that goods in Group A which is eligible for term is eligible for credit up to a maximum of 2 years. Such credit may be in the form of suppliers credits or buyers credit. Supplier credit arises when an exporter extended credit to the overseas buyers and finance himself through EXIM Bank. The deferred report takes the forms of buyers credit. Exim bank operates three (1) Loan (II) Re Discounting and (III) Guarantees.

The credit is needed at each step of operation in export trade whether at pre-shipment or post-shipment stages and there are various ways of obtaining these credit facilities from the commercial bank or export credit agencies specially set up for the purpose. These finances are in the form of loan,
overdraft, cash credit, rediscounting of bills and insurance cover for various risk involved. The govt. of India has taken every possible steps to cater the credit needs of exporters either in the form of buyer or supplier credit.

The Exim Bank also discharges duties of coordinating the activities of various financial institution, providing, finances for export and import for goods and services. Besides India, this bank also manages finances of third world countries for export and import of goods and services. On March 31, 1994 the paid up capital of bank was Rs. 336 crore. While its authorised capital was Rs. 500 crore.

Reserve Bank Of India(RBI) And Foreign Trade:
The Reserve Bank of India performs several important functions, some of which are as follows:

(1) It sanctions loans to the schedule banks against the security of bills of exchange drawn in the course of foreign trade.

(2) It exercises control over foreign exchange so that it could be made available to meet the genuine needs of foreign trade.

(3) It maintains the external value of the rupee. RBI play an import role in maintaining the stability of exchange value of the rupee and acts as an agent of the Govt., in respect of
India’s membership of International Monetary Fund (IMF).

The RBI also performs developmental and promotional functions. These apart, the Reserve Bank of India also handles the borrowings programme of the Govt. of India

**Industrial Development Bank of India and Foreign Trade:**

The Industrial Development Bank of India was established in July 1964, with the passing of a bill into law of the Public Financial Institutions (Amendment) Act 1975, the IDBI has now been made the apex financial institution to aid and control functions of other financial institution.

In the field of foreign trade IDBI provides direct loans to the export oriented industrial units and bonafide exporters. It also grants refinance against export credit provided by the schedule Bank.

**WTO and India’s foreign trade:**

The main function of the WTO is to administer and facilitate the implementation of the result negotiations, to administer the trade dispute settlement procedures, to review national trade policies and to cooperate with other international institutions, in particular the IMF and World Bank, in order to achieve greater coherence in global economic policy making.
The WTO aims to encourage development and economic reform among the increasing member of developing countries with economies in transaction participating in the international trading system.

During April, 1998, the Trade Policy Review Body (TPRB) of the World Trade Organization (WTO) undertook evaluation of India's trade policy.

The last judgement of India's trade policy by the apex body on world trade was in 1993. However, with the agreement of the General Agreement on Tariff and Trade (GATT), by the WTO over and above the conventional areas of trade policy the recent review by the TPRB also include the "new areas" of service trade and trade related aspects of intellectual puppetry rights.

The TPRB has mentioned sharp tariff reductions under taken by India between 1993-94 and 1997-98. The simple average of all tariff rates has been 71 per cent in 1993-94 to 35 per cent in 1997-98. During the same time, average tariff on import of manufactures was come down from 73 per cent to 36 per cent. The applied rate and the high tariff for agriculture imports during 1997-98 were at 26 per cent and 45 per cent
respectively. The overall import weighted average tariff has come down from 87 per cent in 1990-91 to 20 per cent in 1997-98, even after taking into account the short time duty of 5 per cent.

The TPRB noted that since the last review, India had done significant progress in the reduction of non-tariff barriers as well. During the time of current review the list of freely importable goods and goods under SIL covered about 68 per cent and 10 per cent respectively of the total tariff lines. Between 1995-96 and 1997-98, India has progress the coverage of SIL by about one third. The country has proposed a six year phase out programme for shifting the remaining restricted goods to the freely importable category. The part of imports on which state trading corporations have same monopoly has also been reduced from 27 per cent during the term of the last decade to 19 per cent in 1997-98.

The TPRB felt that the process of liberalisation of India’s trade policy has not made progress in certain directions. The focus of India trade reforms is an export orientation rather than a more general outward orientations. Some member of TPRB pointed out that many exporters in India are entitled to SIL.
Since these licenses are freely transferable and fetch a premium in the market they suggest that the facility may be perceived as an export subsidy.

By virtue of its WTO membership, India automatically avail of Most Favoured Nations (MFN) and National Treatment from all WTO members for its exports and participation in this increasingly rule based system is aimed towards ensuring more stability and predictability in the govt. of international trade.

As a member of the WTO, India has bound about 67 per cent of its tariff where as prior to the Uruguay Round only 6 per cent of the tariff were bound for non-agricultural goods, with a few exception ceiling binding of 40 per cent at advaloram in finished and 25 per cent an goods, machinery, and equipment have been undertaking. In textiles, where reduction will be achieved over a period of 10 years, India has reserved the right to revert duty levels prevailing in 1990. Under the agreement in agriculture, except for a few items, India bound rates range from 100 to 300 per cent and no commitments have been made regarding access, reduction of subsidies or tariff.

India’s legislation on custom valuations, the custom valuation rates, 1998, has been amended to bring it into
conformity with the provisions of the WTO agreement on implementation of Article VII of GATT 1994 and the Custom Valuation Agreement.

Quantitative Restriction (QRs) on import are currently being maintained on balance of payment grounds or around 2300 tariff lines at the eight digit level.

The General Agreement on Trade in Service (GATS) has a “positive list” approach thereby allowing WTO’s member to take an obligation in the sector of their choices India has made commitment in 33 activities, as compared to an average of 23 activities for developing countries.

India’s economic liberalization, as a matter of fact has brought about a revolution in the area of trade and investment. The policy packages introduced under economic liberalization with regard to trade and investment are mainly purported to integrate the India economy with the global economy.

India’s Foreign Trade Policy:

The period after 1991 has been marked by a substantial liberalization of the trade policy. While some liberalization measures were the result of the conviction among government circles that they were necessary to make exports competitive in
the international market, some were undertaken under the pressure of the international agencies, as a part of the stabilization and structural adjustment programme. Moreover, with India joining the WTO (World Trade Organization) in 1995 as a founder member, it is under an obligation to strike down all quantitative restrictions on imports and reduce import tariffs so as to 'open up' the economy to world trade and the forces of globalization. The main features of the new trade policy as it has evolved over the years since 1991 are as follows:

**Freer Imports and Exports:**

In the pre-reform period, India's trade policy regime was complex and cumbersome. There were different categories of importers, different types of import licences, alternate ways of importing etc. The importers were broadly grouped into three categories: (i) Actual Users for Industrial Products and Non-industrial Products, (ii) Exporters, and (iii) Others. As far as licenses are concerned, they were categorized as (i) Open General Licence (OGL), (ii) Automatic Licence, (iii) Supplementary Import Licence, and (iv) Import through government-owned canalised agencies. In the post-reform
period, the coverage of OGL has been enhanced and the restricted list too has been cut drastically. The tariff line wise import policy was first announced on March 31, 1996 and at the time itself 6,161 tariff lines were made free. Another 1,905 tariff lines were made free till March 2000 taking the total to 8,066. Quantitative restrictions in respect of 1,429 tariff lines remained till that date. The annual Exim Policy 2000-01 announced on March 31, 2000 removed quantitative restrictions on 714 items with effect from April 1, 2000. Quantitative restrictions on the remaining 715 items will also go by April 1, 2001—the date by which India has to implement the rulings and recommendations of the Dispute Settlement Body of the WTO to remove existing quantitative restrictions.

Rationalization of Tariff Structure:

In its Final Report published in January 1993, Chelliah Committee had advocated drastic reductions in import duties. The committee expressed the opinion that the rupee had depreciated considerably in the eighties and the early nineties, pushing up the level of protection to Indian industries considerably. For instance, the committee pointed out that in the seven year period 1985-86 to 1992-93, the real exchange
rate of the rupee has depreciated by 57.45 per cent. This had pushed up the cost of the imports considerably leading to very high levels of protection to the Indian industry. The Committee, therefore, recommended that the prevailing import duties be rationalised and drastically lowered by 1998-99 so that parity in prices of goods produced domestically and internationally can be established. Acting on the recommendations of the Committee, the Finance Minister announced substantial cuts in import duties in the 1993-94, the 1994-95 and the 1995-96 Budgets. The 1993-94 Budget reduced the maximum rate of duty on all goods from 110 per cent to 85 per cent except for a few items including passenger luggage and alcoholic beverages. The 1994-95 Budget further brought down the maximum rate of duty from 85 per cent to 65 per cent. This was brought down to 50 per cent in the 1995-96. Budget and further to 40 per cent in the 1998-99 Budget. The 2000-01 Budget reduced the peak rate of basic customs duty to 35 per cent. Thus there are now only four customs duty rates of 35 per cent, 25 per cent, 15 per cent and 5 per cent. However, a surcharge of 10 per cent has been levied due to revenue considerations.
Decanalization:

A large number of exports and imports used to be canalised through the public sector agencies in India. The supplementary trade policy announced on August 13, 1991 reviewed these canalised items and decanalised 16 export items and 20 import items. The 1992–97 policy decanalised imports of a number of items including newsprint, non-ferrous metals, natural rubber, intermediates and raw materials for fertilisers. However, 8 items (petroleum products, fertilisers, edible oils, cereals, etc.) were to remain canalised. It has been estimated that, in value terms, the proportion of canalised items in total imports declined from 27 per cent to 19 per cent between 1988–89 and 1998–99.1

Liberalizing Exchange Rate Regime:

The exchange rate policy in India has evolved from the rupee being pegged to a market related system (since March 1993). The exchange rate is largely determined by the market, i.e., demand and supply conditions. “The objective of exchange rate management has been to ensure that the external value of the rupee is realistic and credible as evidenced by a sustainable current account deficit and manageable foreign exchange
situation. Subject to this predominant objective, the exchange rate policy is guided by the need to reduce excess volatility, prevent the emergence of destabilizing speculative activities, help maintain adequate level of reserves, and develop an orderly foreign exchange market".2

Prior to the devaluation of 1966, one US dollar was equal to Rs. 4.76 (this was the rate during 1961-65). After the devaluation in 1966, one U.S. dollar became equal to Rs. 7.50. The system of fixed exchange rates (also known as the Bretton Woods System) was abandoned by most countries in 1973. The Government of India also abandoned it and pegged Indian rupee to a basket of currencies of the countries which are her major trading partners. Under this floating exchange rate system, the rupee started to slide against the dollar and other major currencies of the OECD countries. By the end of 1990, one US dollar had become equal to Rs. 18.07. The rate, Rs. per SDR, was 7.58 in 1970 and reached Rs. 25.71 by the end of 1990. The Government devalued the rupee in early July, 1991 which led to a depreciation in the value of the rupee against the five major international currencies by roughly 22 per cent.
i. **Partial convertibility of rupee:** The Finance Minister announced the liberalized exchange rate mechanism system (LERMS) in the Budget for 1992-93. This system introduced partial convertibility of rupee. Under this system a dual exchange rate was fixed under which 40 per cent of foreign exchange earnings were to be surrendered at the official exchange rate while the remaining 60 per cent were to be converted at a market determined rate. The foreign exchange surrendered at official rate was to be used for the import of essential items (like crude oil, petroleum products, fertilisers, life saving drugs, etc.) and the foreign exchange converted at the market rate was to be used to finance all other imports. Since the official exchange rate was lower than the market rate, this system meant taxing the exporters to subsidize the government's bulk imports. The implicit export tax was between 8-12 per cent and was highly resented by exporters.

ii. **Full convertibility on trade account:** The 1993-94 Budget introduced full convertibility of the rupee on trade account. As a result, the dual exchange rate system was dispensed with and a unified exchange
rate system introduced. Under the unified exchange rate regime, the 60-40 ratio was extended to 100 per cent conversion. The 100 per cent conversion was extended for (i) almost the entire merchandise trade transactions (i.e. export and import of goods); and (ii) all receipts, whether on current or capital account of balance of payments (BOP), but not all payments. Side by side, the official RBI rate also stayed on for the conversion of items not permitted under the unified market rate i.e., more than half a dozen of invisible items of current account as well as capital account. In addition, various exchange control norms of the Reserve Bank remained in operation all along, albeit with some relaxation of provisions.

iii. **Full convertibility on current account:** Current account convertibility is defined as the freedom to buy or sell foreign exchange for the following international transactions: (I) all payments due in connection with foreign trade, current business, including services, and normal short term banking
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and credit facilities; (ii) payments due as interest on loans and as net income from other investments; (iii) payments of moderate amount of amortization of loans or for depreciation of direct investments: and (iv) moderate remittances for family living expenses. In February 1994, the Reserve Bank undertook several steps towards achieving such convertibility when it announced relaxation in payment restrictions for a number of invisible transactions and liberalization of exchange control regulations up to a specified limit relating to (a) Exchange Earners’ Foreign Currency (EEFC) Accounts; (b) basic travel quota; (c) studies abroad; (d) gift remittances; (e) donations; and (f) payments of certain services rendered by foreign parties.

India achieved full convertibility on current account on August 19, 1994 when the Reserve Bank further liberalized invisible payments and accepted obligations under Article VIII of the IMF, under which India is committed to forego the use of exchange restrictions on current international transactions as an instrument in managing the balance of payments. Many
other relaxations of restrictions on current transactions were announced in 1995-96, 1996-97 and 1998-99. These include major relaxations in exchange control; more liberal indicative ceilings for release of foreign exchange by authorized dealers (ADs) for basic travel quota, studies abroad, medical expenses, casual (gift) remittances, donations, release of exchange for persons proceeding on employment abroad; greater flexibility in the Exchange Earner Foreign Currency (EEFC) accounts held by exporters; greater flexibility for remittances for purchase of foreign services by residents, etc.

After the country moved to a single market-determined exchange rate system in March 1993, the rupee exhibited good stability and for over two years after March 1993, the rupee-dollar exchange rate remained steady at about Rs. 31.6. However, the exchange rate of the rupee vis-a-vis the dollar depreciated from the monthly average of Rs. 31.6 in August 1995 to Rs. 36. In February 1996, Reserve Bank's effective intervention helped in restoring stability and the exchange rate of the rupee per US dollar recovered to Rs. 34.2 in April 1996. After reasonable stability lasting for a period of about eighteen months, the Indian rupee, in August 1997, experienced a mild
attack of contagion emanating from currency turmoil in East Asia. Beginning in the second week of November 1997, the exchange rate of the rupee against the dollar came under renewed downward pressure. The rupee depreciated to a low of Rs. 40.36 per dollar by January 16, 1998, but recovered to Rs. 39.49 on March 10, 1998. Since September 1998, the rupee displayed reasonable stability up to end March 1999. From April onwards, the exchange rate had been reacting to the uncertainty linked to political developments, followed by the Kargil episode. Against this backdrop, by end September 1999, the rate had reached Rs. 43.60 per dollar compared with Rs. 42.51 per dollar on April 6, 1999. However, since October 1999, the exchange rate has displayed reasonable stability and at the end of January 2000, the rate was Rs. 43.64 per US dollar.³

The nominal effective exchange rate of rupee (NEER), which is a weighted average of exchange rates vis-à-vis the currencies of major trading partners, showed a depreciation of 23.7 per cent in 1998-99 in nominal terms since 1993-94 (the 5 country index of NEER with base 1995 = 100 was 110.21 in 1993-94 and 84.04 in 1998-99). However, with inflation in
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India being higher than in the major industrial countries, the real effective exchange rate of rupee (REER) appreciated by 10.1 per cent in 1997-98 over 1993-94 (the 5 country index of REER with base 1995=100 was 105.19 in 1997-98 and 95.51 in 1993-94). This adversely affected the competitiveness of India’s exports in the world markets. In May 1998, REER stood at 103.31 and thereafter it started declining. In December 1998 it stood at 98.84 thereby slightly correcting for the appreciation in the real effective exchange rate of rupee. Curing the first nine months of 1999-2000, the NEER and REER were relatively stable. The NEER was 82.97 in April 1999 (Base 1995=100) and 80.29 in December 1999. The REER was 101.30 in April 1999 (Base 1995=100) and 98.55 in December 1999.

Trading House:

The 1991 policy allowed export houses and trading houses to import a wide range of items. The Government also permitted the setting up of trading houses with 51 per cent foreign equity for the purpose of promoting exports. Under the 1992-97 trade policy, export houses and trading houses were provided the benefit of self certification under the advance license system, which permits duty free imports for exports.
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The 1994-95 policy introduced a new category of trading houses to be called Super Star Trading Houses. To attain the status of a Super Star Trading House, an exporter must have registered an average FOB value of exports of Rs. 925 crore during the preceding three years or Rs. 1,387.50 crore during the preceding year. On the basis of NFE criterion, an exporter must have registered an average net foreign exchange (NFE) value of exports of Rs. 740 crore during the preceding three years or Rs. 1,100 crore during the preceding year. These houses will be entitled to membership of apex consultative bodies concerned with trade policy and promotion, representation in important business delegations, special permission for overseas trading and special import licences at enhanced rate.

**EOU/EPZ/EHTP/STP:**

The units undertaking to export their entire production of goods may be set up at export Processing Zones (EPZs), Electronic Hardware Technology Park (EHTP), Software Technology Park (STP) and Export-Oriented Units (EOUs). EPZs are special enclaves, separated from the Domestic Tariff Area (DTA) by fiscal barriers and are intended to provide an
internationally competitive duty free environment for export production at low cost. Recent changes in EOU/EPZ/EHTP/STKP scheme include:

(i) Enhancement of tax holiday from 5 years to 10 years; (ii) Higher domestic access; (iii) Rationalisation of minimum Net Foreign Exchange Earning as percentage of exports (NFEP) and minimum export performance; (iv) Enlargement of the scope of private bonded warehouses in EPZs to include procurement of indigenous goods for exports; (v) undertaking of job work on behalf of domestic units for direct exports in certain sectors etc.

**SEZs:** The annual Exim Policy for the year 1999-2000 announced on March 31, 1999 proposed the setting up of FTZs (Free Trade Zones) in the country. The FTZ scheme was to be operational from July 1, 1999. The idea was to insulate the zones from bureaucratic interference and exports restrictions. However, this scheme could not be implemented. The annual Exim Policy for the year 2000-2001 announced on March 31, 2000 has proposed the creation of special Economic Zones
(SEZs) modelled on the lines of the highly successful Chinese experiment. The units operating in these zones will have full flexibility of operations. They would be able to import capital goods and raw materials duty free and would also be able to access the same from Domestic Tariff Area (DTA) without payment of Terminal Excise Duty. The only conditions would be that the units in the zone would have to export the entire production and that DTA sales would be allowed only on payment of full applicable customs duties and additional duties. The first two SEZs in the country are to be based at Pipavav in Gujarat and Tuticorin in Tamil Nadu. The existing EPZs are also to be converted in SEZs.

**EPIPs.** A centrally sponsored ‘Export Promotion Industrial Parks’ (EPIPs) scheme was introduced in August 1994 with a view to involving the State governments in the creation of infrastructural facilities for export-oriented production. It provides for 75 per cent of capital expenditure towards creation of infrastructure facilities limited to Rs. 10 crore of grant to the State government. So far 19 proposals for establishment of EPIPs have been sanctioned.

**Concessions and Exemptions:**
A large number of tax benefits and exemptions have been granted during the nineties to liberalise imports and promote exports with the five year Exim Policy 1992-97 and Exim Policy 1997-2002 serving as the basis for such concessions. These policies, in turn, have been reviewed and modified on an annual basis in the Exim policies announced every year. Successive annual Union Budgets have also extended a number of tax benefits and exemptions to the exporters. For example, some of the measures announced in the Union Budget, 1999-2000, were as follows:

(i) reduction in the prevailing 7 major ad valorem rates of customs duty to 5 basic rates and rationalisation of both import duty and excise structures;

(ii) significant reduction in duty rates for critical inputs for the information Technology sector, which is an important export sector;

(iii) extension of facilities and tax benefit available to exporters of goods and merchandise under section 80 HHC to the entertainment industry to facilitate its development and exports, etc. The Union Budget, 2000-01, as mentioned earlier, reduced the peak rate
of customs duty from 40 per cent to 35 per cent and brought down the total number of customs duty rates from 5 to 4. It also announced a number of tax benefits for the three integral parts of the 'convergence revolution'—the Information Technology sector, the Telecommunications sector, and the Entertainment industry.

**Exim Policy, 1997—2002:**

The Commerce Minister presented the new export-import policy for five years 1997-2000 (coterminal with the Ninth Plan) on March 31, 1997. The main objectives of this policy are as under:

1. To accelerate the country’s transition to a globally oriented vibrant economy to derive maximum benefits from expanding global marker opportunities.

2. To stimulate sustained economic growth by providing access to essential raw materials, intermediates, components, consumables and capital goods required for augmenting production.
(3) To enhance the technological strength and efficiency of Indian agriculture, industry and services, thereby improving their competitiveness while generating new employment opportunities, and encourage the attainment of internationally accept standards of quality.

(4) To provide consumers with good quality products at reasonable prices. The important schemes/measures contained in the policy to achieve the above objectives were as under:

1. The Restricted List of imports was substantially pruned. Import of 542 items was liberalised which included about 150 items that could now be imported against Special Import Licence (SIL). About 60 items were moved from SIL to the Open General Licence (OGL) list. Restrictions were placed on 5 items on grounds of environmental safety, strategic importance, public health and security.

2. The Export Promotion Capital Goods (EPCG) Scheme was streamlined. The tariff rates for the import of capital goods were reduced from 15 per cent to 10 per cent. Zero-duty imports under EPCG scheme were allowed in those cases
where the c.i.f. value of imports was Rs. 20-crore or more subject to export obligations. This threshold limit was brought down to Rs. 5 crore for zero-duty import of capital goods for exports in agriculture and allied sectors. This measure is expected to boost agro-exports. The Exim policy also extended the zero-duty EPCG concession to the service industry, including hospitals, air cargo, hotels and other tourist related services.

3. Under the duty Exemption Scheme, the Value-Based Advance Licence Scheme (VABAL) and the Pass Book Scheme were discontinued and a new Duty Entitlement Pass Book (DEPB) scheme introduced. The trend all the world over is to relieve the export products of all indirect taxes leviable on them in the country of origin. DEPB is an effort in that directions as it seeks to neutralize the basic customs duty. Under the DEPB scheme, an exporter is eligible to claim credit as a specified percentage of f.o.b. value of exports made in freely convertible currency. DEPB may be issued on post-export basis and pre-export basis. On pre-export basis, the scheme provided for ad hoc duty entitlement at 5 per cent of the average f.o.b. value of
exports in the preceding three years. This entitlement aimed at enabling exporters to import duty free. On post-shipment basis, exporters were to be entitled for duty free credits at notified rates. The scheme covers both manufacture exporters as well as merchant exporters.

4. Deemed exports benefits were extended to oil and gas sectors in addition to power sector. This measure is aimed to promote and facilitate indigenisation. To encourage domestic souring of inputs, domestic manufacturers supplying against EPCG licences were made entitled to deemed export drawback facility.

5. Norms for domestic sales by EOUs and EPZs in agro and allied sectors were liberalised. These units could now sell 50 per cent of their production in DTA (domestic tariff area), without stipulation of any value addition and had only to ensure positive net foreign exchange earning.

6. The 1997-2002 Exim Policy proposed to give double weightage for agro exports in calculating eligibility of export houses and trading houses. It also announced a 1 percent SIL on total value of exports for export of fruit,
vegetables, floriculture and horticulture produce if such exports constitute 10 percent of the total exports.

7. With a view to giving a renewed thrust to exports of gems and jewellery, the Exim Policy proposed to increase the number of nominated agencies permitted to stock gold. The exporters could either take gold on a replenishment basis or purchase it outright from these designated agencies.

8. The new policy aims to give a boost to the software industry. Software exporters were allowed to undertake exports using data communication links or in the form of physical exports through courier service; imports of goods from clients on loan for a specified period was also permitted; on-line data communication for DTA sales was permitted.

9. Electronic hardware units were allowed to sell up to 50 percent in DTA on an annual basis while exporting 50 percent.

10. Special depreciation norms were provided for electronic goods up to 70 percent in three years.
11. Recognising that procedures need to be considerably simplified, the new policy focuses on making the procedures transparent and less discretionary. Considerable automaticity has also been introduced in the procedures. For example, the export obligation period under advance license and the validity of the licence has been increased from the earlier 12 months to 18 months.

**Exim Policy, 2000-01:**

The Exim Policy 1997-2000 was revised on April 13, 1998, March 31, 1999 and March 31, 2000. The objectives of this revision/modification were to meet the commitments made to the WTO, further liberalise imports, and promote exports. In a bid to meet the commitments to the WTO, these three annual policies have withdrawn quantitative restrictions on the imports of a number of items so that now such restrictions remain on only 715 items. Even these items will be freed from quantitative restrictions by April 1, 2001 as required by the WTO. Some important initiatives were undertaken in the Exim Policy announced on March 31, 1999. These included (i) recognising the national service rendered by exporters by issuing green cards to exporters exporting 50 percent of their
production with a minimum or Re. 1 crore per year entitling
them to various facilities; (ii) issuing gold status certificate to
those exporters who have attained Export House/Trading
House/Star Trading House/Super Star Trading House status for
three successive terms, which would entitle them to all the
benefits accruing from such status in perpetuity regardless of
variations in their performance in the subsequent years thus
obviating the need for them to apply for such status from time
to time; (iii) conferring of Export House Status to service
providers (limit pegged at one-third the level prescribed for
merchandise exporters); (iv) setting up the institution of
ombudsman for the objective of solving all disputes of
exporters with the customs and the DGFT (Directorate General
of Foreign Trade); (v) introducing electronic data interchange
(EDI) in the DGFT, the customs department, banks, including
the Reserve Bank of India, export promotion councils and the
ports, setting up of FTZs (Free Trade Zone), etc.

The Exim Policy for the year 2000-01 was announced by
the Government of India on March 31, 2000. The main
highlights of this policy are as follows:
SEZs. FTZs as proposed in the March 31, 1999 Exim Policy did not materialize. The Exim Policy announced on March 31, 2000 has now proposed the setting up of SEZs (Special Economic Zones) as in China, in different parts of the country. The idea basically is that in these areas export production can take place free from the plethora of rules and regulations governing import and export. The units operating in these zones will have full flexibility of operations. They would be able to import capital goods and raw materials duty free and would also be able to access the same from the DTA (Domestic Tariff Area) without payment of Terminal Excise Duty. No permission would be necessary for inter unit sales or transfer of goods. There would be no wastage norms or input-output norms. They would be able to undertake job work processed for the DTA units and would also be able to get their goods processed in the DTA. The only conditions would be that the units in the SEZs would have to export the entire production and that DTA sales would be permitted only on payment of full applicable customs duties and additional duties without any concessions. The movement of goods from and to ports and from SEZs will be unrestricted and without any hindrance. The
first two SEZs in the country would be created at Pipavav in Gujarat and Tuticorin in Tamil Nadu. The minimum size of the SEZs has been fixed at 400-500 hectares or more. The existing EPZs would be converted into SEZs even though their area is less than that specified under the norms. Immediately, SEEPZ, Kandla EPZ, Vizag EPZ and Cochin EPZ are proposed to be converted into SEZs.

However, there are certain points that need to be noted. The first is that the country's experience with the hitherto existing EPZs has been far from being satisfactory and they generally performed far below expectations. This was despite the fact that they enjoyed considerable advantages over their DTA counterparts. What, therefore, is the guarantee that SEZs will succeed? A second observation is that allowing the units in SEZ to sell in the domestic market on payment of only the customs duty is a serious discrimination against the domestic industry which has to pay both customs duty on imports and excise duty on domestic clearance. The extent of advantage to the units in SEZs will amount to an average of 16 percent which is the excise duty (Cenvat) at present 26. Thus the local industry will face an unfair competition from units in SEZs.
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Reduction in Quantitative Restrictions:

Quantitative Restrictions (QRs) on imports maintained on Balance of Payments (BoP) grounds were notified to WTO in 1997 for 2,714 tariff lines at the eight digit level. In view of the improvement in India's BoP, the Committee on BoP Restriction had asked India for a phase out plan for these QRs. Based on presentations before this Committee and subsequent consultations with main trading partners, India reached an agreement with those countries, except USA, to phase out the QRs over a period of six years beginning 1997. The US preferred a dispute under the WTO's Dispute Settlement Mechanism. Pursuant to the report of the Panel and the Appellate body, India and the USA have agreed to a bilateral settlement for determination of reasonable period of time upto April 1, 2001, within which India has to implement the ruling and recommendations of the Dispute Settlement Body to remove the existing quantitative restrictions in a phased manner. Before the announcement of the Exim Policy on March 31, 2000, the number of tariff lines on which quantitative restrictions existed was 1,429 at the eight digit level. The Exim Policy announced on March 31, 2000 has removed quantitative
restriction on 714 of these items. These items include coffee, tea, tobacco, paper, fabrics, watches, sewing machines, photographic film etc. Quantitative restrictions on the remaining 715 items will have to be removed by India by April 1, 2001 in accordance with the above agreement.

**Bigger role for States mooted**

The Exim Policy for 2000-01 envisages a bigger role for the State governments in export promotion efforts. For this purpose, they will be provided Rs. 250 crore for the creation of necessary export infrastructure. They will also be persuaded to declare units exporting over 50 percent of their turnover as public utility services to enable them keep their international commitments regarding delivery schedules.

**EPCG scheme liberalised:**

Import of capital goods under the Export Promotion Capital Goods (EPCG) scheme has been further liberalised by extending the facility to all sectors and capital goods. The policy has also removed the threshold limit of Rs. 20 crore and withdrawn the 10 percent countervailing duty on such imports. Under the new policy, import of capital goods under the EPCG
schemes will be allowed without any threshold limit on payment of 5 percent duty.

**Special Import Licence (SIL):**

Special Import Licence has been abolished because there will be no SIL list after March 31, 2001. Thus no SIL is admissible in respect of exports/supplies made on or after April 1, 2000. However, the Exim Policy states that in respect of exports/supplies effected up to March 31, 2000, SIL with a validity period up to March 31, 2001 will be issued immediately without waiting for the realisation of export proceeds. This implies that SIL list would be abolished after March 31, 2001 and the grant of SIL stands discontinued after March 31, 2000. This marks the end of a major incentive for exporters for the past several years since SILs could be traded and commanded a premium.

**Deemed export benefits extended:**

Deemed exports essentially refers to those transactions in which the goods supplied do not leave the country and payments for such goods are made in India by the recipient for the goods. The Exim Policy, 2000-01, has extended the deemed export benefits to all sectors. Definition of capital goods has
been expanded to include all items/components/spares/accessories/tools etc., which go into the making of capital goods. These benefits have been extended for supplies to all UN organisations as also for the renovation and modernisation (R & M) of power plants.

**DEPB to be phased out:**

As part of India's commitment to phase out export incentive schemes, the Commerce and Industry minister in his Exim Policy speech announced the phasing out of the duty entitlement pass book (DEPB) scheme by 2002. While the pre-export DEPB schemes has been abolished with immediate effect, the post-export DEPB scheme will continue till March 31, 2002. By 2002, the DEPB schemes will be subsumed into one Drawback scheme. The Exim Policy has also removed the threshold limit of Rs. 20 crore for fixing new DEPB rates. This is expected to make the scheme more accessible to the exporters.

**Imports Of Second-Hand Capital Goods Allowed:**

The government has allowed the import of second-hand capital goods, which are less than 10 years old without obtaining any license on surrender of special import license.
This step is likely to affect the domestic capital goods industry adversely.

**Encouragement to Project Exports:**

To encourage project exports from India, the Exim Policy provides that project exporters, construction companies and service provider with a domestic turnover of over Rs. 100 crore can now apply for an International Service House Status. This can be done by signing a memorandum of understanding (MOU) with the DGFT. The MOU signatory, however, has to undertake to achieve an export performance to the tune of Rs. 15 crore a year for the next three years. Grant of the above status will enable the project exporters to avail certain facilities like quick clearance of imports and exports, easier licensing etc.

**Diamond Dollar Account Scheme:**

In order to develop India as a major trading centre for diamonds, the Exim Policy has announced a number of steps. One of the major steps is the introduction of a Diamond Dollar Account (DDA) schemes which would allow exporters to retain export proceeds in a dollar account. The DDA can be used by
exporters to import rough diamonds or cut and polished diamonds from another DDA holder.

**A Critical Evaluation of the New Trade Policy:**

The trade policy reform initiated in 1991 have drastically changed the foreign trade scenario and have resulted in the shift from inward oriented to an outward-oriented policy. With the sweeping liberalisation process that is currently underway in the foreign trade sector, the level of protection to Indian industry has declined significantly as the government has resorted to a massive cutting down of import tariffs and allowing more liberal imports of a number of goods whose imports were earlier either totally banned or severely restricted. In his study Mehta has presented estimates of nominal and effective rates of protection for Indian economy, based on 55 sectors, for the years 1989-90, 1993-94 and 1995-96, thereby defining a comparable set of estimates before and after the July 1991 trade policy changes. His study shows that the average estimated Effective Rate of Protection (ERP) which was 87 percent in 1989-90 fell to 62 percent in 1993-94 and to as low as 30 percent in 1995-96. In a similar way, the average estimated Nominal Rate of Protection (NRP) fell from 93
percent in 1989-90 to 63 percent in 1993-94 and further to 31 percent in 1995-96. As far as changes in protectionism in the form of Quota or Non-Trade Barriers (NTBs) are concerned, exact estimates for the pre-reform period are not available but Mehta estimates that the amount of import which was subject to one or more types of restriction was around 90 percent. As against this, only 44 percent of India’s imported commodities were subject to at least one type of NTBs in 1995-96.  

The euphoria and enthusiasm generated by the large-scale trade policy reforms in recent years and talks of globalisation etc. have led many in the official and non-official circles to regard the foreign trade sector in India now as the ‘leading sector’ of the economy – a sector that will change the face of the economy in the coming years giving it a strong push up in the world economy. However, in this euphoria, one should not ignore the following three issues which, according to Deepak Nayyar, are of fundamental or strategic importance in planning for industrialisation – the relative importance of the home market, the nature or the degree of State intervention, and the acquisition or development of technology.
As far as the issue of the relative importance of the home market is concerned, Deepak Nayyar argues that in large countries like India, where the domestic market is overwhelmingly important, sustained industrialization can only be based on the growth of the internal market. In the ultimate analysis, large economies must endeavor to internalise external markets. Therefore, industrialisation may stress manufacturing for the domestic market through import substitution or manufacturing for export to external markets. “In terms of an appropriate strategy for industrialization, striking a balance between import substitution and export promotion is the equivalent of ‘walking on two legs’. An environment that produces a spectacular export performance is also conducive to efficient import substitution and rapid economic growth”.

As far as the issue of State intervention in the process of industrialization is concerned, the experience of the second half of the twentieth century shows that the guiding and supportive role of the State has been at the foundations of successful development among the late industrialisers. This is true not only in the case of the centrally planned economies of Eastern Europe but also in the case of the market economies of
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East Asia. According to Deepak Nayyar, in terms of State intervention, there is not much to distinguish between import substitution and export promotion. In the former, the State protects the domestic capitalists from foreign competition in the home market while in the latter, the State protects the domestic capitalists from foreign competition in the world market. It is the ‘nature’ of State intervention that matters. It is this nature and degree of State intervention in the foreign trade sector that deserves serious attention in the context of planning for industrialisation. "The experience of India illustrates that it is possible for State intervention to create an obligopolistic situation in a competitive environment, just as the experience of the Republic of Korea illustrates that it is possible for State intervention to create a competitive situation in an oligopolistic environment".¹

As far as the issue of technology is concerned, Nayyar argues that the existing market structure and policy framework have not combined to provide an environment that could accelerate the absorption of imported technology and foster the development of indigenous technology, or create a milieu which could be conducive to diffusion and innovation. It needs
to be stressed that the role of the government is crucial in planning for technological development across sectors and over time. This requires the formulation of a policy regime for the import of technology (planning for the acquisition of technology, taking steps for its absorption, adaptation, diffusion etc.), allocating resources for research and development, and evolving State procurement policies.\textsuperscript{9}

The above discussion points out the vital fact that the ‘macro-economic interconnections’ between the foreign trade sector and the overall process of planning for industrialization are crucial. The solutions to the problems of the national economy cannot be found through the foreign trade sector or simple recipes associated with it. On the other hand, the problems of the foreign trade sector can be resolved to a considerable extent, through an improved performance and a better management of the economy at home. “In other words, the tail cannot wag the dog”.

**Conclusion:**

Trade policy reforms over the last decade have provided an export friendly environment with simplified procedures conducive to enhancing export performance. The focus of these reforms have been on liberalization, openness, transparency
and globalization with basic thrust on outward orientation focussing on export promotion activity moving away from quantitative restrictions and improving competitiveness of Indian industry to meet global market requirements. Over the years significant changes in the EXIM policy have helped to strengthen the export production base, remove procedural irritants, facilitate input availability besides focussing on quality and technological upgradation and improving competitiveness. Steps have also been taken to promote exports through multilateral and bilateral initiatives, identification of thrust areas and focus regions.
Notes & References:


2. Ibid., p. xi-7.


5. Ibid; p. 780.

6. Deepak Nayyar, “The Foreign Trade Sector, Planning and Industrialization in India.

7. Ibid, p. 360-1
